

VZCZCXRO1907
RR RUEHFL RUEHKW RUEHLA RUEHNP RUEHROV RUEHSR
DE RUEHCH #0067/01 0341334
ZNY CCCCC ZZH
R 031334Z FEB 09
FM AMEMBASSY CHISINAU
TO RUEHC/SECSTATE WASHDC 7580
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE

C O N F I D E N T I A L SECTION 01 OF 03 CHISINAU 000067

SIPDIS

STATE FOR EUR/UMB, EUR/ACE
COMMERCE FOR PATRICIA NUGENT
DEPT PASS TO USAID

E.O. 12958: DECL: 01/21/2019
TAGS: [ECON](#) [EFIN](#) [EPET](#) [ENRG](#) [EAID](#) [RS](#) [MD](#)
SUBJECT: ECONOMIC MINISTER DESCRIBES ENERGY
SITUATION IN MOLDOVA

Classified By: Ambassador Asif J. Chaudhry for
reasons 1.4 (b) and (d)

11. (C) Summary: During Ambassador Chaudhry's January 21 meeting with First Deputy Prime Minister and Minister of Economy and Trade, Igor Dodon, the Minister reviewed the energy security situation in Moldova and possible measures to secure gas and electricity supplies. Dodon discussed a proposed joint venture between a U.S. and a Moldovan company to build an electric generation plant in Moldova. He maintained that the world economic crisis had not had a significant impact on Moldova to date. End Summary.

THE PRICE OF GAS FOR MOLDOVA

12. (C) The Minister explained that the recent gas crisis had forced Moldova to focus on long-range measures to ensure its energy supply. He noted that Moldova relied solely on the Russian company, Gazprom, for its gas supply and the current contract clearly defined the volume of Moldova's gas supply and the pricing structure. The pricing structure used a complicated formula incorporating the world prices for oil products. For Moldova the price for 1,000 cubic meters of gas had increased to USD 315 on January 1, 2009, and was valid for the first quarter of the year. Based on current world prices for oil and gas products, the Minister speculated that gas would cost USD 260 per 1,000 cubic meters for Moldova in the second quarter, USD 190 for Moldova in the third quarter and USD 170-USD 180 for Moldova in the final quarter of the year. Dodon calculated that the average price for 1,000 cubic meters of gas for Moldova for the year would be approximately USD 240 to USD 250.

GAS SECURITY FOR MOLDOVA

13. (C) The Minister identified two gas-security measures that the Government of Moldova (GOM) was pursuing. He said the first possibility to diversify the gas supply for Moldova would be for the country to participate in the Nabucco project which planned to transport gas from Turkey to Austria. Ideally, the Nabucco pipeline would run near the Danube River and Moldova would be able to connect to the gas supply he added. Dodon expressed his hope that the recent crisis would encourage the countries involved in the Nabucco

project to become more active and move forward.

¶4. (C) Dodon stated that the second measure to ensure regular gas supplies for Moldova would be the construction of gas storage facilities. He indicated that it might be possible to build such facilities in the southern part of the country. The Minister said that the GOM had applied to the EBRD for an analysis of building gas-storage facilities in Moldova and was awaiting a response.

GAS FOR TRANSNISTRIA

¶5. (C) The Minister underlined that the GOM collaborated with Transnistria on trying to supply gas to the left bank during the shutdown of Russian gas flowing through Ukraine. The gas supply system in Transnistria was also part of the Moldovagaz company. He explained that during the gas crisis, central and northern Moldova, including northern Transnistria, had continued to receive some gas supplies through the northern pipeline from Ukraine. At the same time, Ukraine had completely shut down the gas supply to the southern pipeline thus stopping all supplies to the southern part of Transnistria. In fact, during the crisis some southern villages and communities on the right bank had not received gas. Moldova did not have the technical ability to supply gas to southern Transnistria from the northern pipeline.

CHISINAU 00000067 002 OF 003

ELECTRICITY FOR MOLDOVA

¶6. (C) Moldova produced 30 percent of its electricity and imported the remaining 70 percent, Dodon stated. Until December 31, 2008, Moldova imported electricity from Ukraine. On January 1, 2009, Moldova had begun to purchase electricity from the Curciurgan plant in Transnistria. (Note: Transnistria privatized the Curciurgan plant in a murky deal in 2004. RAO UES, Russia's state-owned electricity monopoly, acquired the plant in 2005 and consolidated ownership of 100 percent of the enterprise in 2008. The GOM does not recognize privatizations of Moldovan state property in Transnistria. End note.) The Minister noted that Moldova could influence the relationship with Curciurgan since the plant did not have another direct customer neighboring Transnistria. If Curciurgan wished to sell electricity to Romania, it would have to export through Moldova, providing Moldova with some leverage. The Minister indicated that Moldova was also pursuing investment in the electricity market to increase domestic production. He referred to a new project to build an electric plant in Ungheni near the Romanian border. The GOM had successfully identified a Czech investor for this project.

U.S. INVESTMENT IN ELECTRICITY GENERATION

¶7. (C) The Minister noted that he had met with American and Moldovan joint venture partners, Commonwealth Trading Partners and TecPower, to discuss the construction of an electricity generating plant in Moldova about a year ago. The GOM had drafted a government decision supporting the project. The decision was now circulating through the GOM's ministries. Dodon expressed his hope that the GOM would approve the project in

February 2009 and then sign an agreement. Ambassador Chaudhry indicated that foreign investment should be encouraged to improve domestic production of energy.

UPDATE ON THE WORLD ECONOMIC CRISIS IN MOLDOVA

¶8. (C) Dodon stated that the GOM had no indications that remittances had dropped significantly or that a large number of Moldovan migrants had returned home as a result of the global economic crisis. He noted that some migrants had returned home in December, but it was too early to establish whether this was typical seasonal migration for the holiday season or permanent returns. While daily remittances were down slightly and imports had dropped, this was not because of the economic crisis, he argued. Dodon explained that imports were primarily down because the price of oil products, which made up 30 percent of imports into Moldova, had dropped considerably. Moldova could now buy many imports at lower prices.

MOLDOVA NEEDS DIVERSIFICATION

¶9. (C) Minister Dodon said that the gas crisis had forced the GOM to think more about energy diversification and security. He felt the recent move to purchase electricity from the Curciurgan plant in Transnistria offered a more secure supply for Moldova. He hoped this collaboration with a Transnistrian enterprise would be a confidence-building measure. Dodon indicated that the GOM was interested in foreign investors in the energy sector and would also focus more on renewable energy resources, in particular, wind power.

COMMENT

¶10. (C) Moldova has no alternative supply for natural gas and must rely on Russia. The only

CHISINAU 00000067 003 OF 003

viable alternative in the mid- to long-term is the Nabucco pipeline. In addition to complete dependence on Russian natural gas, Gazprom owns 50 percent plus one share of the Moldovan gas distributor, Moldovagaz, and controls the 13 percent owned by Transnistria. In the capital, Chisinau, heating tariffs do not cover the full costs of generation and distribution and the city government does not have the will to reduce subsidies and alienate voters.

¶11. (C) Adding to the woes of the heating sector is the fact that a court-appointed administrator has operated Termocom, the municipal heating distributor, since the company declared bankruptcy in 2001. In December 2008 Parliament approved legislation extending insolvency proceedings for Termocom for up to three years. The Chisinau municipal government owes Termocom approximately 140 million Moldovan Lei (USD 14 mln). Termocom, in turn, is indebted to Moldovagaz and the GOM's two centralized electricity plants in the capital. The GOM uses the city's debt to the electricity plants as a political tool to increase difficulties for the opposition Liberal Party mayor and administration of Chisinau. The GOM is attempting to freeze the city's bank accounts to force payment of the debt.

¶12. (C) The insecurity of energy supplies, poor administration of the energy sector, Russian control of parts of the sector, and government interference discourage investment and hamper diversification in the energy sector. Moldova is unlikely to decrease its energy reliance on Russia in the short term. Nor will Moldova significantly improve energy conservation or efficiency until the central government shows the political will needed to tackle corruption in and depoliticize the energy sector.

CHAUDHRY